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LOOKING BACK ON '86 TRENDS & HIGHLIGHTS OF A BUSY YEAR
B D & M U.S. BINDERIES GO HIGH TECH

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PW Index Underperformed

Typically, investors would be pleased with an annual return on their money of 17%–18%. However, 1986 was an unusual year. Our year-end survey (which runs only through the end of November due to an early deadline) indicates that the *Publishers Weekly* Index, a composite of the stocks of nine major publishing companies, gained 17.4% year-to-date compared to 18.4% and 23.8% gains for the Standard & Poor's 400 and Dow Jones Industrial Average, respectively.

Most of the weakness in the *PW* Index surfaced in the second half of 1986, for during the first half the Index was outpacing the market. Without a sharp rebound in December, this will mark only the third year that the *PW* Index has underperformed the DJIA, and only the fourth time it has underperformed the S & P 400. Only one of the nine stocks—John Wiley & Sons—posted a price decline, but three other stocks underperformed the major market indices.

Poor operating results had an impact on Wiley's stock, which declined sharply. The company reported negative year-over-year earnings-per-share comparisons for its April and July fiscal quarters. This trend was reversed as the recently released October fiscal quarter results exhibit improved earnings per share.

Addison-Wesley, Harper & Row and Macmillan also underperformed. The major news at Addison-Wesley this year was the November announcement that the family of chairman Melbourne W. Cummings, which owns 83% of the company's Class A stock, would swap a substantial number of their shares for Class B stock currently held by other executives. The swap would spread voting control in the company among several members of top management. The Class A stock has voting control but is not publicly traded as is the Class B stock.

Harper & Row's price performance correlated closely with its operational performance as it reported negative comparisons in its January, April and July fiscal quarters. The company, however, posted improved earnings in its October fiscal quarter, and the stock has reacted positively to the news.

Macmillan was among the best performers in the Index prior to the release of a September 30 *Financial World* article that was quite negative. In the wake of that article, the stock dropped about 25% and has yet to recover. Macmillan has been an extremely active acquirer of small companies during 1986, but such purchases have not come close to approaching the company's $75 million acquisition of ITT's publishing and information services businesses in April 1985.

McGraw-Hill, Houghton Mifflin and Harcourt Brace Jovanovich had price increases of 24%–28%. Despite weak operating results, McGraw-Hill outperformed the indices. Throughout the year there was speculation that the company would be acquired at a premium although no tangible evidence of such a transaction has surfaced. The company made several relatively small acquisitions during 1986, perhaps the most important being that of the Economy Company. This acquisition indicated McGraw-Hill's interest in remaining in the elhi school publishing business.

Houghton Mifflin also outperformed as its internally developed Riverside Publishing subsidiary supported strong revenue gains with its new reading and math series.

Harcourt Brace Jovanovich gets this year's award for most active company. HBJ came to the public market for funding twice, once in March when it sold $200 million in subordinated convertible debentures and once in July when it sold 4.9 million common shares for $163 million. Although the company made several acquisitions during the year, the major one was that of CBS Educational Publishing for $500 million.

Gulf + Western added to its string of major book publishing acquisitions, which began in 1984 with Prentice-Hall and Esquire and continued in 1985 with Ginn. In 1986 the acquisition was Silver Burdett, at a price tag of $125 million.

Grolier repeats as the stock that appreciated the most. Our year-ago survey indicated Grolier had posted a 92% gain through November. This year the stock was up nearly 79% year-to-date. The reduction in interest rates has been a major positive influence for Grolier, which has a total debt-to-capital ratio of 70%, the highest of any stock in the index. The company also has exhibited outstanding bottom-line growth throughout the year. As with McGraw-Hill, Grolier has been the subject of much takeover speculation—but also, as with McGraw-Hill, nobody has shown up with an offer.

Looking forward, we expect some of the stocks that experienced a tough 1986—namely John Wiley & Sons and Harper & Row—to post better relative price performance in 1987 if they can maintain the improved performance trends of the most recent reported quarter. Also, stocks of companies deeply involved in the elhi business will be aided by a heavy adoption schedule.

—Kevin Gruneich

Gruneich is vice-president, publishing/information analyst, for the First Boston Corporation.

THE PUBLISHERS WEEKLY INDEX (As of the End of November)

	CLOSING PRICES		CHANGE
	11/28/86	12/31/85	YTD
Addison-Wesley (Class B)	$ 36.50	$ 33.75	8.1%
Grolier	11.63	6.50	78.9
Gulf+Western	68.00	49.75	36.7
Harcourt Brace Jovanovich	31.75	24.83	27.9
Harper & Row	24.75	22.38	10.6
Houghton Mifflin	29.63	23.25	27.4
Macmillan	42.13	38.00	10.9
McGraw-Hill	59.75	48.00	24.5
John Wiley & Sons (Class B)	32.00	43.00	(25.6)
Publishers Weekly Index	811.92	691.57	17.4
Dow Jones	1,914.23	1,546.67	23.8
S & P 400	277.73	234.56	18.4

Longest-Running Hardcover Bestsellers for 1986

The books on these *PW* hardcover and paperback bestseller lists are those that lasted longest on our regular weekly bestseller lists in 1986.

This list of fiction and nonfiction titles does not necessarily reflect the year's bestselling hardcover books in terms of actual sales. Often titles that achieve bestsellerdom in the last few months of the year will have the highest rate of sales, because of Christmas purchases. The 1985 list of longest-running hardcover bestsellers included 19 fiction titles and 16 nonfiction titles that made the weekly charts 15 times or more.

Fiction

		# Wks. on '86 List	# Wks. on '85 List
1	* **The Mammoth Hunters.** Jean M. Auel. Crown (11/85; $19.95).	42	4
2	* **The Bourne Supremacy.** Robert Ludlum. Random House (3/86; $19.95).	32	–
3	* **Lake Wobegon Days.** Garrison Keillor. Viking (9/85; $17.95).	31	16
4	* **Last of the Breed.** Louis L'Amour. Bantam (7/86; $17.95).	27	–
5	* **Wanderlust.** Danielle Steel. Delacorte (7/86; $18.95).	24	–
6	* **Lie Down with Lions.** Ken Follett. Morrow (1/86; $18.95).	23	–
	* **I'll Take Manhattan.** Judith Krantz. Crown (5/86; $18.95).	23	–
7	* **Red Storm Rising.** Tom Clancy. Putnam (8/86; $19.95).	21	–
8	**Texas.** James A. Michener. Random House (10/85; $21.95).	20	10
9	**Through a Glass Darkly.** Karleen Koen Random House (9/86; $19.95).	18	–
10	**A Matter of Honor.** Jeffrey Archer. Linden Press/S & S (7/86; $18.95).	17	–
	* **A Perfect Spy.** John le Carré. Knopf (5/86; $18.95).	17	–
	The Garden of Eden. Ernest Hemingway. Scribners (6/86; $18.95).	17	–
11	**The Good Mother.** Sue Miller. Harper & Row (5/86; 17.95).	16	–
12	* **It.** Stephen King. Viking (9/86; $22.95).	16	–
13	**The Handmaid's Tale.** Margaret Atwood. Houghton Mifflin (2/86; $16.95).	15	–
	The Eighth Commandment. Lawrence Sanders. Putnam (6/86; $18.95).	15	–
	Act of Will. Barbara Taylor Bradford. Doubleday (6/86; $17.95).	15	–

Nonfiction

		# Wks. on '86 List	# Wks. on '85 List
1	* **Fit for Life.** Harvey and Marilyn Diamond. Warner Books (6/85; $16.50).	48	24
2	**Callanetics: 10 Years Younger in 10 Hours.** Callan Pinckney. Morrow (9/84; $16.95).	35	5
3	**You're Only Old Once.** Dr. Seuss. Random House (3/86; $9.95).	33	–
	* **Fatherhood.** Bill Cosby. Doubleday. (5/86; $14.95).	33	–
4	* **The Rotation Diet.** Martin Katahn. Norton (5/86; $15.95).	30	–
5	**The Be-Happy Attitudes.** Robert Schuller. Word (9/85; $12.95).	27	6
6	**Necessary Losses.** Judith Viorst. Simon & Schuster (4/86; $17.95).	25	–
7	**Women Who Love Too Much.** Robin Norwood. Tarcher/St. Martin's (6/85; $16.95).	21	16
	James Herriot's Dog Stories. James Herriot. St. Martin's (6/86; $19.95).	21	–
8	**Iacocca: An Autobiography.** Lee Iacocca with William Novak. Bantam (11/84; $17.95).	19	51
	* **Yeager: An Autobiography.** Gen. Chuck Yeager and Leo Janos. Bantam (7/85; $17.95).	19	23
	Bus 9 to Paradise. Leo Buscaglia Morrow/Slack (2/86; $16.95).	19	–
	The Rice Diet Report. Judy Moscovitz Putnam (4/86; $19.95).	19	–
	"And So It Goes": Adventures in Television Land. Linda Ellerbee. Putnam (5/86; $18.95).	19	–
9	**When All You've Ever Wanted Isn't Enough.** Harold S. Kushner. Summit Books/ Simon & Schuster (4/85; $16.95).	18	–
10	**Men Who Hate Women and the Women Who Love Them.** Dr. Susan Forward and Joan Torres. Bantam (9/86; $16.95).	16	–

* These titles achieved the #1 spot during their 1986 tenure on *PW*'s Bestseller List.

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Longest-Running Paperback Bestsellers for 1986

This year not one of the 22 mass market bestsellers that made *PW*'s weekly bestseller charts for 10 or more weeks was an original paperback. In the trade paperback list, humor was again the dominant category, followed by tax books and annuals. Those three categories accounted for 11 of the 18 trade titles that were on our weekly lists for 10 or more weeks last year.

In 1985, there were 25 mass market titles and 22 trade paperbacks that made the weekly charts 10 or more times.

Mass Market

		# Wks. on '86 List	# Wks. on '85 List
1	* **Women Who Love Too Much.** Robin Norwood. (6/86; $4.50).	28	–
2	**The Hunt for Red October.** Tom Clancy Berkley (10/85; $4.50).	26	11
3	* **The Color Purple.** Alice Walker. Pocket Books (12/85; $4.50).	24	1
4	* **If Tomorrow Comes.** Sidney Sheldon. Warner (1/86; $4.95).	18	–
5	* **Lake Wobegon Days.** Garrison Keillor. Penguin Select (8/86; $3.95).	14	–
6	**Clan of the Cave Bear.** Jean Auel. Bantam (12/85† $4.95).	13	1
	* **Family Album.** Danielle Steel. Dell (3/86; $4.50)	13	–
	The Two Mrs. Grenvilles. Dominick Dunne. Bantam (6/86; $4.50).	13	–
	Lonesome Dove. Larry McMurtry. Pocket Books (8/86; $4.95).	13	–
	The Accidental Tourist. Anne Tyler. Berkley (9/86; $4.50).	13	–
7	**The Class.** Erich Segal. Bantam (2/86; $4.50)	12	–
	Queenie. Michael Korda. Warner (4/86; $4.90)	12	–
	* **A Creed for the Third Millennium.** Colleen McCullough Avon (4/86; $4.95)	12	–
	* **Hold the Dream.** Barbara Taylor Bradford. Bantam (4/86; $4.50)	12	–
	The Fourth Deadly Sin. Lawrence Sanders. Berkley (7/86; $4.50)	12	–
8	**Stillwatch.** Mary Higgins Clark. Dell (4/86; $4.50)	11	–
	* **Skeleton Crew.** Stephen King. NAL/Signet (4/86; $4.50)	11	–
9	**The Lonely Silver Rain.** John D. MacDonald. Fawcett/Gold Medal, (3/86; $4.50).	10	–
	* **Lucky.** Jackie Collins. Pocket Books (7/86; $4.95).	10	–
	The Cider House Rules. John Irving. Bantam (7/86; $3.95).	10	–
	* **Iacocca: An Autobiography.** Lee Iacocca with William Novak, Bantam (7/86; $4.50).	10	–
	The Red Fox. Anthony Hyde. Ballantine (9/86; $4.50).	10	–

Trade

		# Wks. on '86 List	# Wks. on '85 List
1	* **The Road Less Traveled.** M. Scott Peck. Touchstone/S & S (10/83; $9.95).	52	48
2	**Rand McNally Road Atlas 1986.** Rand McNally (11/85; $5.95).	40	4
3	* **Out of Africa and Shadows on the Grass** Isak Dinesen. Vintage (12/85; $4.95).	31	–
4	**What Color is Your Parachute 1986.** Richard N. Bolles. Ten Speed Press (4/86; $8.95).	28	–
5	* **Loving Each Other.** Leo Buscaglia. Fawcett/Columbine (4/86; $7.95).	26	–
6	* **Valley of the Far Side.** Gary Larson. Andrews, McMeel & Parker (9/85; $4.95).	22	15
7	**The Far Side Gallery.** Gary Larson. Andrews, McMeel & Parker (11/84; $8.95)	20	10
8	**Dianetics, Revised Edition.** L. Ron Hubbard. Bridge Publications (9/85; $4.95)	18	–
	* **It Came From the Far Side.** Gary Larson. Andrews, McMeel & Parker (8/86; $5.95)	18	–
9	**The World Almanac and Book of Facts 1986.** World Almanac Publications (11/85; $5.95).	17	–
	* **Bloom County Babylon.** Berke Breathed. Little, Brown (9/86; $12.95).	17	–
10	**Garfield Out to Lunch.** Jim Davis. Ballantine (3/86; $5.95).	16	–
11	**J. K. Lasser's Your Income Tax 1986.** J. K. Lasser Institute. S. & S. General Reference Group (12/85; $7.95).	15	–
	The Arthur Young Tax Guide 1986. Arthur Young & Co. Ballantine (12/85; $8.95).	15	–
	What They Don't Teach You at Harvard Business School. Mark H. McCormack Bantam. (7/86; $8.95).	15	–
12	**Adult Children of Alcoholics.** Janet Geringer Woititz. Health Communications (1983; $6.95).	14	–
13	**Less Than Zero.** Bret Easton Ellis. Penguin (6/86; $5.95).	12	–
	Growing Up Catholic. June Meara, Jeff Stone, Maureen Kelly and Richard Davis Doubleday/Dolphin (2/85; $4.95).	12	27

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